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Information transfer through training in franchising enterprises

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Abstract

This paper seeks to focus on the education of the franchisee and specifically to detect whether and how information is being transferred from franchisor to franchisee. Franchising enterprises are organized and managed differently related to other enterprises. To find out who is responsible for the training of the franchisee and whether franchising enterprises highlight the significance of education, in order to keep the organization culture and the brand of the firm. To observe whether there is education on a regular basis and what kind of education is suggested. Is there education on general topics or in specific ones? Are franchisees trained to understand the values and the goals of the whole firm?

The statistical analysis of the obtained data, deriving from a structured questionnaire survey, provided interesting insights on the above matters, revealing that franchising enterprises give great emphasis on the training of their franchisees, because they want to keep and augment their goodwill and reputation. The success of franchising is based on regular training.

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1. Introduction

Franchising is a very popular business scheme nowadays. Is training important in terms of competitiveness and sustainability? Which kind of information is being transferred from franchisor to franchisee?

Current research focuses on the answer of the above questions and investigates training practices in Greek franchising firms. Recent research have been focused on relevant strategic questions by employing computational methods and techniques [1 – 15]. The paper is organized as following: an introduction of franchising, the theoretical framework about training, the contacted research method for theory testing and discussion of the findings.

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2. Literature review

2.1. Franchising – definition, advantages and disadvantages

Franchising has been introduced in fast food business somewhere between 1960 and 1970. [16] Increasing intense competition, as well as the failure of many small and medium sized businesses to respond to the new economic situation, has resulted in an enormous expansion of franchising. This practice is considered to be a safe alternative for small businesses, in order to survive through competition, taking as an advantage the recognizable brand name of established branches. [17; 18]

Nowadays, franchising is a tendency. [19; 20] The most appropriate domains for franchising concepts are service industries (fast food restaurants, automobile repair and rental) and professional services (hotel management and real estate services). [21] In the UK, franchising accounts for approximately 1/3 of all retail sales. It appears to be a valuable way by which businesses can be developed both domestically and abroad. [22; 23] It can also be defined as an arrangement, in which the owner of a product, process or service (the franchisor) licenses someone else (the franchisee) to use it under agreed compensation - an initial fee to join the system and a constant fee, via “royalty” incomes or management fees, - in return for continual support. [22; 24; 25; 26; 27]

Companies are motivated to franchise mainly because they expect to raise their capital. [28] According to Bruno [29], a company can also choose the franchised scheme for lower risk, greater market penetration, speed of expansion, franchisee motivation and quality control. Some seductive prospects for potential franchisees are: the established company, the expert advice, the option of location, the availability of back-up and help, the proven concept and brand name, the reduced risks, a guaranteed clientele from the outset, the company benefits and operational advantages. [29; 30; 31; 32] On the other hand, the risks that a franchisor might face are: [29] a certain loss of control of the business, if the franchise agreement is weak, the expenses for legal preparation, the advertising costs, the training costs and the lower profit potential. Finally, the disadvantages of a franchisee are: [29] the limited freedom of action and the constant payment of fees.

2.2. Franchising training programs

Knowledge is information produced by the commitment and beliefs of the individuals that possess it. According to the relative literature, it can be classified into two types. [33] The explicit knowledge is a knowledge that is easily codified and transferred from one individual or organization to another. Policy and procedure manuals, books, articles, and even electronic communications may be effective means of codifying and transferring it. According to Nonaka [34], tacit knowledge is “deeply rooted in action, commitment and involvement in a specific context”, is gained through the individuals' experience and may be extremely difficult to codify and transfer. The interaction between these knowledge dimensions can make the franchise system work. A franchisor starts with a vague idea based on his dreams, aspirations, experience, knowledge, conviction and education. Once the franchisees buy the franchise idea, they receive operating manuals, marketing plans and procedures, all in writing or in an electronic form (explicit knowledge). They are also trained on how to implement the business plan and how to run the operation on a daily basis (tacit knowledge). [35] The final stage of this process is a well-run franchise branch with well-trained personnel and well-defined procedures. [36]

Franchising education involves training (knowledge needed for production and service operations), continuous support and advice for every issue and general information on the conditions of the franchise contract. [21; 31] This is achieved through meetings, seminars, phone discussions and electronic communication.

Real time accessibility on goals, resources, strategies and achievements is determinant. Franchisors provide operating guidelines and policies, marketing support, training and all the necessary knowledge for a successful operation. [37] Franchisees follow these guidelines and provide the franchisor with sales information and results.
so that the royalty payments are accurate and on time. They also share other operating information to help the franchisor refine their marketing efforts. Paswan and Wittmann [36], propose that a successful and competitive franchise system involves information sharing, flexibility, trust and use of information technology that enhances communication. Mutual interdependence, reliance, trust, autonomy, compliance and mechanisms of control are cohesive elements in franchise relationships, leading to an appropriate transfer of information. [38]

2.3. Initial training and on-going support in franchising enterprises

When franchisees enter the system, they need to be provided with a complete guide on how to do business. Given that many of them will not have previous company experience [39] to successfully transfer knowledge within a reasonable timeframe, initial training is a considerable challenge. This initial knowledge transfer [40] is critical for franchisees. A survey on Canadian franchisees showed that 50% of them believed that the start-up support they received was a significant factor in their decision to purchase the franchise. [41] Although initial training is important, the continuous support is crucial to the effectiveness of the system. [42] According to the above: H1. The existence of previous professional experience in franchising, is not connected with the perception of training is as an important success element.

In general, franchisors provide free initial training courses lasting from seven days to four weeks, focusing on all aspects of the business. These are followed by several visits of area managers and in store training of personnel in the first days of the opening of the store. They offer similar training possibilities for the franchisee's staff and continuous availability of follow up training. [30] In real economy, however, training isn’t always provided. Franchisors give advice and guidance on stock control and on matters such as re-order levels and new item prices. All other functions are thought to be a responsibility of the franchisees. [30] As stated by Hall and Dixon, [43] training period is extremely important, as it is the basis to instill the franchisee's confidence in the franchisor. An effective educational program should be tailored to the new franchisee's specific needs, rather than being a comprehensive introduction to business. [44] All these, lead to the next hypothesis:

H2. The existence of previous professional experience in franchising, is not correlated with the fact that franchisors inform franchisees on their goals.

Franchisees need to be informed on new and updated procedures, on up-to-date pricing and on product information. There is a need for regular and frequent information exchange within the franchise system. [45] This continual requirement for information exchange underlines the need for constant communication and trust. Ongoing support helps achieve a deep understanding of the business culture and values, enhances the cooperation of franchisee and franchisor [46], promotes the brand name and improves the sharing of information. [47] Frazer and Winzar [48] argued that although failure may occur due to poor management from the part of the franchisee, it is uncommon to result due to the lack of the franchisor’s business support. Ongoing service means sufficient and accurate contact and continuous business assistance. [49; 50] Feierstein [51] argued that communication plays an important role in promoting and sharing strategies as well as in the overall mission. A positive relationship, enforced by continuous training, minimizes conflicts of interest and maximizes operational profits. [52]

2.4. The importance of training programs in franchising enterprises

Knowledge seems to have an important contribution in the sustainability and competitiveness of a franchise system. [36] Training programs help the franchisor obtain the required information regarding the desirable locations, sources of labor, managerial techniques and practices, operational procedures, accounting methods, the organizational culture, the goals of the franchisee, the skills and experience needed. [21; 53; 54] They are very important, as they combine everything, from developing, perfecting, disseminating and improving to implementing the right business concept. They involve intellectual capital development, which refers to the
intangible assets (knowledge resources, information, experiences, skills, structures and relationships of a company) which collectively can create wealth [54] and the development of the human capital, that refers to the incorporation and application of the skills, experiences, attitudes, ideas, values and competencies from all the employees of the firm. [22]

Education facilitates information transfer from the franchisor to the franchisee and vice versa. [22] Well–trained franchisees are more efficient [55] and can inspire loyalty and trust to the customers. [56] Effective training can make a difference in the development and relative success of the franchisees, as it is positively related to innovation and competitive advantage. [57] Some problems related to the franchisee training and development process are: the dissatisfaction of franchisees when they are unable to achieve their profit expectations and the lack of agreement on who is responsible to provide the necessary training and development. Lavan et al. [58] indicate that active training doesn’t mean effective training. Some usual deficiencies include: lack of discrimination between different franchisees of the same franchisor, absence of adjustment in the training program in order to meet the requirements of each franchisee and relatively low range of methods used (interactive video, e-training) according to the geographical dispersion of franchisees.

2.5. Correlation between training and satisfaction

According to Simonin [59], strategic intent and motives, organizational capabilities, partner selection and trust lead to creation and innovation and affect knowledge transfer, which is a dynamic learning process, through people and their skills, technical tools, routines and systems. [60] Its success depends [61] on the level of commitment and satisfaction between the parties. Individuals develop knowledge commitment to the extent they see the value of knowledge, develop competence in using the knowledge [62], maintain a working relationship or interaction with the knowledge and are willing to put in extra effort to work with the knowledge. [63] Satisfaction is important because it can motivate franchisees to perform better. The more satisfied is the franchisee, the more willing he is to share information. [64] Also, continuous support services enhance franchisee satisfaction. [65] Tikoo, [66] proved that franchisors should use information exchange in order to influence their franchisees, coordinate them, enhance their expertise, reward power bases and keep them dependent on them. According to this last section of the literature review, two last hypotheses were constructed: H3. The more regular the education the franchisee attends, the more well trained he will be and the better he will perform.

H4. The more education the franchisee accepts, the greater the possibility of being well – satisfied.

3. Research method

To obtain an overview of Greek franchise enterprises, a structured questionnaire form was used as a data collection tool. The form was designed in Greek language. The forms of questionnaires were randomly hand delivered by students of the Department of Business Administration of the University of Aegean, to Greek franchise firms. Forms were retrieved, ensuring that all copies were returned and valid for research purposes. Lastly, 441 franchise businesses around Greece participated in this study. The methodology used was random sampling so as to maximize the generalized ability of the results. To analyze our data, we used the SPSS 19. We performed some descriptive statistics, chi – square tests and Monte-Carlo testing to validate/ reject our research hypotheses.

4. Findings

According to the above literature, we propose a framework of four factors that share key characteristics of franchising education: the existence of previous professional experience, the existence of educational programs,
the level of franchisees’ satisfaction and the existence of training on the goals of the franchiser. Together, all these factors reflect the various aspects of information transfer between the two parties.

In order to distinguish the effect of previous professional experience in the frequency of franchise training in the Greek franchise industry, the first hypothesis has proved that inexperienced managers need initial training, but continuous training support is necessary for all franchisees. Then, the existed relationship between previous experience in franchises and the information provided from franchisor to franchisees was searched. X² analysis showed that previous professional experience in franchise does not play any significant role in the way that the franchisors inform franchisees frequently for their business goals in Greek franchise industry. A good explanation may be that each company has different organizational culture and goals, so this kind of information should inevitably be transferred to all franchisees.

In order to examine the impact of regular education on the franchisee, the 3rd hypothesis was examined. Results have shown that there is positive correlation between the belief of the franchisee in the education he attends and the frequency of the training programs. Analysis continued by identifying if there is any correlation between the frequency of education the franchisee accepts and his satisfaction. It is proved that there is correlation between these factors. Analysis showed that when a franchisee attends many training programs in regular periods of time, he deeply apprehends business goals, ethics and philosophy, market issues and specific characteristics of the franchisor’s operation. In this way, he is satisfied and motivated to keep and increase the corporate brand and goodwill.

At first analysis, a percentage of 37.30% who were being trained very often by their franchisors seem to be very satisfied while the rates of unhappiness rise when frequency of education declines. Moreover, the existence of previous professional experience was investigated on how it affected training. In our sample, 311 questioned professionals did not have any previous franchise experience. As a matter of fact, it was proven that 50.11% of franchisors with no previous expertise in franchise needed training very often while only 20.23% of franchisors with previous expertise needed the same frequency of training. Additionally, while examining information transfer from franchisors to franchisees, different business strategies were presented. For those who had previous experience in franchises, little information was given from the franchisor for enterprise goals. On the other hand, while percentages rise for the franchisees with no previous experience there is still a percentage of 8.76% that don’t get any business information from their franchisor.

Figure 1 – Previous working experience & frequency of education; Figure 2 – Previous working experience & information for enterprise goals; Figure 3 – Frequency of education & belief of franchisees about it; Figure 4- Education & satisfaction

5. Discussion

Franchising is “the wave of the future”. Its rapid expansion is making the task of managing a franchise more complex and difficult, making training necessary. Historically, franchisor training has consisted solely of a franchisee training book or package. Nowadays, it involves continuous, training programs for all levels of individuals within the franchising organization, because, as explained, knowledge transfer is obviously necessary. However, many times, franchisors are not keen on providing continuous training, mainly because of economical
factors (training costs), doubts about the appropriate type of training, its content and its effectiveness and the fear of future competition. To avoid this, one of the key challenges is to capture the tacit knowledge franchisees hold, in case they leave the system, no matter why, their knowledge does not leave also. For this to occur, appropriate and adequate communication channels are vital for a trusting and cooperative relationship.

On the other side, lack or low quality training, lack of managerial abilities, lack of real support by the franchisor and lack of communication and trust between both parties, are factors which lead to the failure of a franchise. [67] It is obvious that the business profile (previous working experience, academic education, skills and abilities, risk preferences) of each party may influence the success in franchising. Williams [40] argues, that the more risk–averse person will prefer franchises to spread business risk and prior business owners are less likely to franchise. Also, sustainable and strong relationships between the two parties mean better performance [68], increase levels of satisfaction and decrease financial risk. [69] So, consistent and continuous training and support, maintenance of high quality standards, consensus and achievement of maximum efficiency in the operating system are critical factors of the success of a franchise system. [70] Davis, [71] highlights that insufficient diagnosis of franchisee needs and abilities, poor training planning, and lack of post training evaluation contribute to a course not delivering the aim it was intended to do and lead to a loss of economic profit, competitive advantage and consumer trust. A successful training program needs: [38] careful planning, design of a support system to assist franchisees to complete their projects, existence of a set channel of communication between parties, emphasis on the importance of the training and evaluation.

To conclude, successful franchise organizations must develop an environment of feedback and control systems to foster and monitor knowledge creation and transfer, to measure the performance of training programs and improve training methods, to quickly detect poor performance, interfere for improving the quality of services and face the existing problems. [33] The loss of personal contact with franchisees worsens the ability to monitor and coordinate them and leads to a loss of knowledge of their actions. Internet and information technology tools enable accurate transmission of data and various forms of knowledge with less cost. (20; 36; 45]

6. Concluding remarks and directions for further research

This exploratory study profiled Greek franchise enterprises on whether information is transferred through training in Greek franchise industry. In total, 70.45% of the franchisors train their franchisees very often while 29.55% don’t provide any training programs for sales or other market matters. Results demonstrated that previous experience in franchise plays a significant role in the frequency of training the franchisee gets. Although, the organization’s culture and goals are the main causes of diversification in the way information flows through the franchise company. Taking into consideration previous researches, there is a lot to be done in the field of training in Greek franchise industry so as to meliorate business efficiency.

Although this empirical study is not without limitations, it provides theoretical and practical insights and stimulates further research in organizational economics and management to explain the importance of information flow through franchising networks. A next step in the study of training for franchising could be its economic perspective. How much money can be spent for a quantitative and qualitative the training provided by the franchisor? How does that influence the decision to invest in a given training method? In-depth analysis of operational and financial data from training participants can be used to assess the impact of training costs.

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